

CITY OF CUSTER
CUSTER, SOUTH DAKOTA

FINANCIAL STATEMENTS AND INDEPENDENT AUDITOR'S REPORT
FOR THE YEAR ENDED DECEMBER 31, 2009

CITY OF CUSTER

TABLE OF CONTENTS

	<u>PAGE</u>
Independent Auditors' Report	1-2
Management's Discussion and Analysis	3-11
<i>Government-Wide Financial Statements:</i>	
Statement of Net Assets	12
Statement of Activities	13
<i>Fund Financial Statements:</i>	
Governmental Funds Balance Sheet	14
Reconciliation of the Governmental Funds Balance Sheet to the Government-Wide Statement of Net Assets.	15
Governmental Funds Statement of Revenues, Expenditures and Changes in Fund Balances	16-17
Reconciliation of the Governmental Funds Statement of Revenues, Expenditures and Changes in Fund Balances to the Government-Wide Statement of Activities	18
Proprietary Funds Balance Sheet.	19
Proprietary Funds Statement of Revenues, Expenses, and Changes in Fund Net Assets	20
Proprietary Funds Statement of Cash Flows	21
Notes to Financial Statements	22-35
<i>Required Supplementary Information:</i>	
Budgetary Comparison Schedule – General Fund	36-37
Budgetary Comparison Schedule – Third Penny (Promotion) Fund.	38
Budgetary Comparison Schedule – Bid District Fund	39
Notes to Required Supplementary Information	40
<i>Other Reports:</i>	
Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards.	41-42
Auditor's Comments and Closing Conference	43-46
<i>Other Supplementary Information:</i>	
Independent Auditor's Report	47
Liquor Store Statement of Revenues and Expenses	48



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INDEPENDENT AUDITORS' REPORT

City Council
City of Custer
Custer, South Dakota

We have audited the accompanying financial statements of governmental activities, the business-type activities, and each major fund, of the **CITY OF CUSTER** (the City), Custer County, South Dakota, as of and for the year ended December 31, 2009, which collectively comprise the City's basic financial statements as listed in the Table of Contents. These financial statements are the responsibility of the City's management. Our responsibility is to express opinions on these financial statements based on our audit. The financial statements of the **CITY OF CUSTER** as of December 31, 2008, were audited by other auditors whose report dated October 29, 2009, expressed an unqualified opinion on those statements.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, and each major fund of the City as of December 31, 2009, and the respective changes in financial position and cash flows, where applicable, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with Government Auditing Standards, we have also issued our report dated June 23, 2010, on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. This report is an integral part of an audit performed in accordance with Government Auditing Standards, and should be considered in assessing the results of our audit.

The management's discussion and analysis on pages 3 through 11, and the required supplementary budgetary information on pages 36 through 40, are not a required part of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures for 2009, which consisted principally of inquiries of management, regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the 2009 information and express no opinion on it.

A handwritten signature in black ink that reads "Ketel Thorstenson, LLP". The signature is written in a cursive, flowing style.

KETEL THORSTENSON, LLP
Certified Public Accountants

June 23, 2010

CITY OF CUSTER

MANAGEMENT'S DISCUSSION AND ANALYSIS DECEMBER 31, 2009

This section of the City of Custer (the City) annual financial report presents our discussion and analysis of the City's financial performance during the year ended December 31, 2009. Please read it in conjunction with the City's financial statements, which follow this section.

FINANCIAL HIGHLIGHTS

The City's net assets from governmental and business-type activities decreased by \$524,043, primarily due to TIF development expenses.

During the year, the City's revenues generated from charges for services, taxes and other revenues of the governmental programs were \$1,727,449 (after transfers), and the governmental program expenditures were \$3,182,714.

The City's proprietary funds' revenue exceeded expenses by \$931,222.

The general fund reported a \$105,321 current year increase due to general expenditures being less.

OVERVIEW OF THE FINANCIAL STATEMENTS

The financial report is presented in a format consistent with the presentation requirements of the Governmental Accounting Standards Board (GASB) Statement 34.

This annual report consists of three parts – management's discussion and analysis (this section), the basic financial statements, including related notes, and required supplementary information. The basic financial statements include two kinds of statements that present different views of the City:

The first two statements are government-wide financial statements that provide both long-term and short-term information about the City's overall financial status.

The remaining statements are fund financial statements that focus on individual parts of the City government, reporting the City's operations in more detail than the government-wide statements.

The governmental funds statements tell how general government services, like public safety, were financed in the short-term, as well as what remains for future spending.

Proprietary fund statements offer short- and long-term financial information about the activities that the City operates like businesses. The City has four proprietary funds – the Liquor Fund, the Water Fund, the Sewer Fund, and the Solid Waste Fund.

The financial statements also include notes that explain some of the information in the financial statements and provide more detailed data. The statements are followed by a section of required supplementary information that further explains and supports the information in the financial statements.

CITY OF CUSTER

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
DECEMBER 31, 2009

OVERVIEW OF THE FINANCIAL STATEMENTS (CONTINUED)

Figure A-1 summarizes the major features of the City's financial statements, including the portion of the City government they cover and the types of information they contain. The remainder of the overview section of the management's discussion and analysis explains the structure and contents of each of the statements.

Figure A-1

	Government-wide Statements Entire City government (except fiduciary funds)	Governmental Funds The activities of the City that are not proprietary or fiduciary, such as finance office, police, fire and parks	Fund Statements Proprietary Funds Activities the City operates similar to private businesses, the water and sewer systems
Scope			
Required Financial Statements	Statement of Net Assets and Statement of Activities	Balance Sheet and Statement of Revenues, Expenditures and Changes in Fund Balances	Balance Sheet; Statement of Revenues, Expenses and Changes in Net Assets; and Statement of Cash Flows
Accounting Basis and Measurement Focus	Accrual accounting and economic resources focus	Modified accrual accounting and current financial resources focus	Accrual accounting and economic resources focus
Type of Asset/ Liability Information	All assets and liabilities, both financial and capital, and short-term and long-term	Only assets expected to be used up and liabilities that come due during the year or soon thereafter; no capital assets included	All assets and liabilities, both financial and capital, and short-term and long-term
Type of Inflow/ Outflow Information	All revenues and expenses during year, regardless of when cash is received or paid	Revenues for which cash is received during the year or soon after the end of the year; expenditures when goods or services have been received and payment is due during the year or soon thereafter	All revenues and expenses during the year, regardless of when cash is received or paid

CITY OF CUSTER

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED) DECEMBER 31, 2009

OVERVIEW OF THE FINANCIAL STATEMENTS (CONCLUDED)

Government-wide Statements

The government-wide statements report information about the City as a whole using accounting methods similar to those used by private-sector companies. The statement of net assets includes all of the government's assets and liabilities. All of the current year's revenues and expenses are accounted for in the statement of activities regardless of when cash is received or paid.

The two government-wide statements report the City's net assets and how they have changed. Net assets – the difference between the City's assets and liabilities – are one way to measure the City's financial health or position.

Increases or decreases in the City's net assets are an indicator of whether its financial health is improving or deteriorating, respectively.

To assess the overall health of the City, you need to consider additional non-financial factors, such as changes in the City's property tax base and changes in the sales tax revenue base.

The government-wide financial statements of the City are reported in two categories:

Governmental Activities -- This category includes most of the City's basic services, such as police, fire, public works, parks department and general administration. Property taxes, sales taxes, charges for services, state grants and interest earnings finance most of these activities.

Business-type Activities -- The City charges a fee to customers to help cover the costs of certain services it provides. The City's liquor, water, sewer, and solid waste program are included here.

Fund Financial Statements

The fund financial statements provide more detailed information about the City's most significant funds – not the City as a whole. Funds are accounting devices that the City uses to keep track of specific sources of funding and spending for particular purposes.

State law requires some of the funds. The City Council establishes other funds to control and manage money for particular purposes or to show that it is properly using certain taxes and grants.

The City has two kinds of funds:

Governmental Funds – Most of the City's basic services are included in the governmental funds, which focus on (1) how cash and other financial assets that can be readily converted to cash flow in and out and (2) the balances left at the end of the year that are available for spending. Consequently, the governmental funds statements provide a detailed short-term view that helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs. Because this information does not encompass the additional long-term focus of the government-wide statements, we provide additional information at the bottom of the governmental funds statements, or on the subsequent page, that explains the relationship (or differences) between them.

Proprietary Funds – Services for which the City charges customers a fee are generally reported in proprietary funds. Proprietary funds, like the government-wide statements, provide both short- and long-term financial information. The City's proprietary funds are the same as its business-type activities, but provide more detail and additional information, such as cash flows.

CITY OF CUSTER

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
DECEMBER 31, 2009

FINANCIAL ANALYSIS OF THE CITY AS A WHOLE

Net Assets

The City's combined net assets decreased by three percent between 2008 and 2009 -- decreasing by \$942,405.

Table A-1

Statement of Net Assets						
	Governmental Activities		Business-Type Activities		Total	
	2008	2009	2008	2009	2008	2009
Current & Other Assets	\$ 1,706,754	\$ 2,703,020	\$ 3,116,563	\$ 3,459,427	\$ 4,823,317	\$ 6,162,447
Capital Assets	4,597,591	4,683,465	10,316,507	10,882,148	14,914,098	15,565,613
Total Assets	\$ 6,304,345	\$ 7,386,485	\$13,433,070	\$ 14,341,575	\$19,737,415	\$ 21,728,060
Long-Term Debt	\$ 187,139	\$ 3,235,478	\$ 2,646,070	\$ 2,691,187	\$ 2,833,209	\$ 5,926,665
Other Liabilities	77,113	26,186	140,512	31,033	217,625	57,219
Total Liabilities	\$ 264,252	\$ 3,261,664	\$ 2,786,582	\$ 2,722,220	\$ 3,050,834	\$ 5,983,884
Net Assets:						
Invested in Capital Assets,						
Net of Related Debt	\$ 4,382,189	\$ 1,481,679	\$ 7,614,670	\$ 8,236,511	\$11,996,859	\$ 9,718,190
Restricted	151,796	1,025,123	165,000	106,920	316,796	1,132,043
Unrestricted	1,506,108	1,618,019	2,866,818	3,275,924	4,372,926	4,893,943
Total Net Assets	\$ 6,040,093	\$ 4,124,821	\$10,646,488	\$ 11,619,355	\$16,686,581	\$ 15,744,176
Beginning Net Assets	\$ 5,336,744	\$ 6,040,093	\$10,187,565	\$ 10,646,488	\$15,524,309	\$ 16,686,581
Prior Period Adjustment (a)	399,679	(460,007)	493,927	41,645	893,606	(418,362)
Change in Net Assets	303,670	(1,455,265)	(35,004)	931,222	268,666	(524,043)
Percentage of Change						
Net Assets	5.29%	-26.08%	-0.33%	8.71%	1.64%	-3.22%

(a) The 2008 balances noted above have not been restated to reflect the affects of the 2009 prior period adjustment.

The Statement of Net Assets reports all financial and capital resources. The statement presents the assets and liabilities in order of relative liquidity. The liabilities with average maturities greater than one year are reported in two components -- the amount due within one year and the amount due in more than one year. The long-term liabilities of the City, consisting of compensated absences payable, TIF obligations, and water revenue bonds payable, have been reported in this manner on the Statement of Net Assets. The difference between the City's assets and liabilities is its net assets.

CITY OF CUSTER

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED) DECEMBER 31, 2009

FINANCIAL ANALYSIS OF THE CITY AS A WHOLE (CONTINUED)

Changes in Net Assets

The City's revenues totaled \$4,349,547. See Figure A-2 below. The total cost of all programs and services increased, as did total revenue. The City's expenses cover a range of services, with 38 percent related to public works, conservation and development, and general government. (See Figure A-3)

Figure A-2: Revenue Sources for 2009

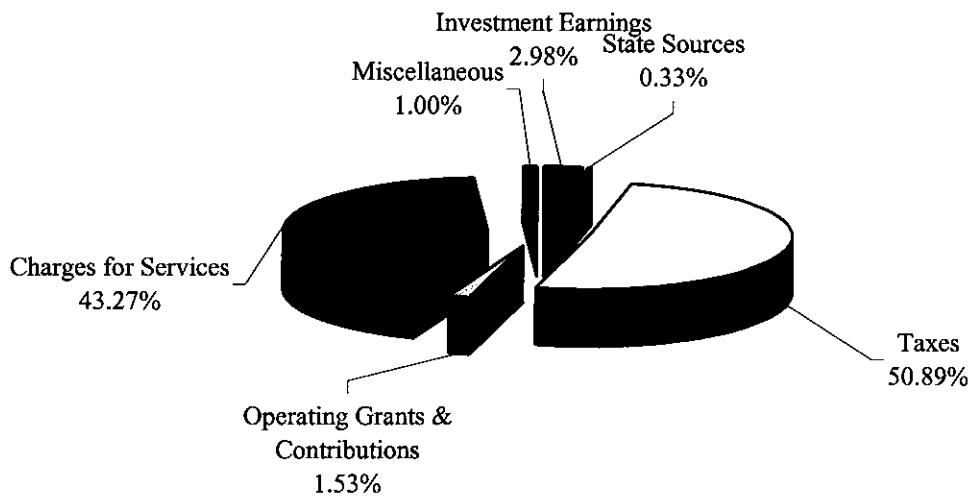
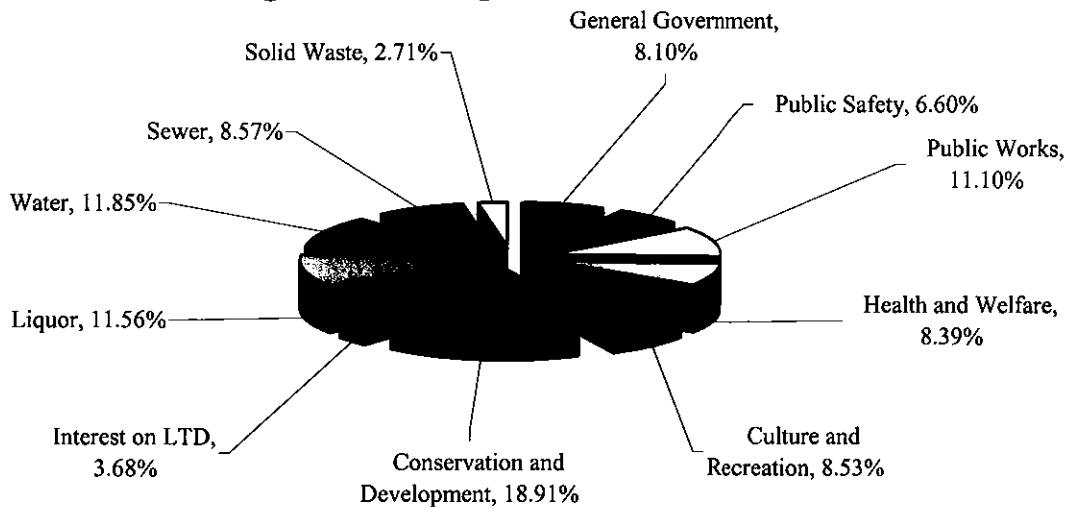


Figure A-3: Expenditures for 2009



CITY OF CUSTER

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
DECEMBER 31, 2009

FINANCIAL ANALYSIS OF THE CITY AS A WHOLE (CONTINUED)

Changes in Net Assets (Continued)

Table A-2

	Total Governmental Activities		Total Business-Type Activities		Grand Total	
	2008	2009	2008	2009	2008	2009
Revenues						
<i>Program Revenues</i>						
Charges for Services	\$ 207,881	\$ 123,442	\$ 1,605,384	\$ 1,758,577	\$ 1,813,265	\$ 1,882,019
Operating Grants and Contributions	-	66,748	-	-	-	66,748
<i>General Revenues</i>						
Taxes	1,993,780	2,213,418	-	-	1,993,780	2,213,418
Revenue State Sources	73,426	14,197	-	-	73,426	14,197
Unrestricted Investment Earnings	79,803	39,946	109,090	89,797	188,893	129,743
Other	48,560	42,814	-	608	48,560	43,422
Transfers	-	(773,116)	-	773,116	-	-
Total Revenues	\$ 2,403,450	\$ 1,727,449	\$ 1,714,474	\$ 2,622,098	\$ 4,117,924	\$ 4,349,547
Expenses						
General Government	\$ 444,059	\$ 394,564	\$ -	\$ -	\$ 444,059	\$ 394,564
Public Safety	385,642	321,596	-	-	385,642	321,596
Public Works	311,967	541,015	-	-	311,967	541,015
Health and Welfare	408,470	408,947	-	-	408,470	408,947
Culture and Recreation	377,591	415,688	-	-	377,591	415,688
Conservation and Development	169,406	921,412	-	-	169,406	921,412
Interest on Long-Term Debt	2,645	179,492	-	-	2,645	179,492
Liquor	-	-	571,355	563,442	571,355	563,442
Water Services	-	-	694,755	577,408	694,755	577,408
Sewer Services	-	-	375,250	417,751	375,250	417,751
Solid Waste	-	-	108,118	132,275	108,118	132,275
Total Expenses	\$ 2,099,780	\$ 3,182,714	\$ 1,749,478	\$ 1,690,876	\$ 3,849,258	\$ 4,873,590
Increase (Decrease) in Net Assets	\$ 303,670	\$ (1,455,265)	\$ (35,004)	\$ 931,222	\$ 268,666	\$ (524,043)
Net Assets - Ending	\$ 6,040,093	\$ 4,124,821	\$ 10,646,488	\$ 11,619,355	\$ 16,686,581	\$ 15,744,176

CITY OF CUSTER

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED) DECEMBER 31, 2009

FINANCIAL ANALYSIS OF THE CITY AS A WHOLE (CONCLUDED)

Governmental Activities

Expenses of the City's governmental activities exceeded revenues by \$1,455,265. Factors contributing to these results included:

- Revenue shortfalls
- General expenditures were higher
- Way Park and Public Restroom projects
- Washington Street Paving Project final payment

Business-Type Activities

Revenues of the City's business-type activities exceeded expenses by \$931,222. Factors contributing to these results included:

- General expenses were lower
- Wastewater treatment plant access bridge project was not completed

FINANCIAL ANALYSIS OF THE CITY'S FUNDS

The financial analysis of the City's funds mirror those highlighted in the analysis of governmental and business-type activities presented above. The City maintains several governmental funds and four business-type funds. Most of the City's funds had some gain during the year.

GENERAL FUND BUDGETARY HIGHLIGHTS

Over the course of the year, the City Council revised the City budget several times. The amendments were increases in appropriations by contingency transfer to prevent budget overruns.

Budget variances were due to the following:

- Less building permits being issued during the current year due to the downturned economy
- Inadvertent doubling of the interest income budget figure
- Less expenditures within executive due to having budgeted for a stormwater drainage study that did not take place in the current year
- Less expenditures within highways and streets due to having budgeted in the current year for the Gordon Street Extension Project that will not take place until 2010

CITY OF CUSTER

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
DECEMBER 31, 2009

CAPITAL ASSET ADMINISTRATION

By the end of 2009, the City had invested \$15,565,613 in a broad range of capital assets, including land, buildings, various machinery and equipment. (See Table A-3.) This amount represents a net increase (including additions and deductions) of \$651,515. Additions consist primarily of water, sewer, and street improvements related to the TIFs.

Table A-3

Capital Assets (Net of Depreciation)				
	Governmental Activities		Business-type Activities	
	2008	2009	2008	2009
Land	\$ 684,206	\$ 684,206	\$ 570,535	\$ 570,535
Buildings	281,594	311,470	603,400	580,564
Improvements	3,055,013	2,955,772	8,948,813	8,689,743
Machinery & Equipment	576,778	448,323	193,759	268,190
Construction Work in Progress	-	283,694	-	773,116
Totals	\$ 4,597,591	\$ 4,683,465	\$ 10,316,507	\$ 10,882,148

LONG-TERM DEBT

At year-end, the City had \$5,926,665 in Water Revenue Bonds, Tax Increment Debt, and Compensated Absences. This is a significant increase from 2008 as shown on Table A-4 below.

Table A-4

Outstanding Debt and Obligations				
	Governmental Activities		Business-type Activities	
	2008	2009	2008	2009
Compensated Absences	\$ 41,973	\$ 33,692	\$ 68,536	\$ 45,550
TIF #1 - Boothill	665,465	665,465	-	-
TIF #2 - Stonehill	-	1,238,821	-	-
TIF #4 - Downtown	-	900,000	-	-
TIF #5 - Pamida	-	397,500	-	-
Water Revenue Bonds	-	-	2,701,836	2,645,637
Total	\$ 707,438	\$ 3,235,478	\$ 2,770,372	\$ 2,691,187

The City is liable for the accrued vacation and sick leave payable (compensated absences) to all full-time employees who have been employed for more than one year. The decrease is due to an increase in the amount of leave used and paid to terminated employees during the year.

CITY OF CUSTER

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONCLUDED) DECEMBER 31, 2009

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

The City's current economic position has shown continued improvement. The City did experience an increase in total property valuation of \$11,318,651, up 11.45 percent from the prior year. The increase in property valuation allows the City the ability to increase the amount of revenue generated from property taxes by approximately \$68,274. Under the state mandated property tax freeze, property taxes from one year to the next may increase 3 percent or an amount based on the Consumer Price Index (CPI), whichever is lower.

One of the primary sources of revenue to the City is based on taxable retail sales in the community (sales tax). The City has experienced an increase in sales tax of .29 percent over the prior year and has budgeted for a \$50,000 increase in sales tax revenue for the next year.

The City's adopted General Fund budget for the next fiscal year will rise to \$2,782,980. The largest portion of this increase is due to the public works fund budgeting for a toolcat and vehicle storage building, a public safety increase due to annual law enforcement contract increase, parks fund budgeting for the Way Park project and YMCA repairs, and the street capital project fund increase due to the 8th and Crook Street intersection rebuild.

The City's adopted business-type budget for the next fiscal year will rise to \$2,251,720. This increase is mostly due to the remodeling of the water treatment plant, wastewater treatment plant access bridge, and possible sanitary sewer study.

CONTACTING THE CITY'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, and investors and creditors with a general overview of the City's finances and to demonstrate the City's accountability for the money it receives. If you have questions about this report or need additional information, contact the City of Custer Finance Office, 622 Crook Street, Custer, SD 57730.

CITY OF CUSTER

**STATEMENT OF NET ASSETS
DECEMBER 31, 2009**

	GOVERNMENTAL ACTIVITIES	BUSINESS-TYPE ACTIVITIES	TOTAL
Assets:			
Cash and Investments (Note 2)	\$ 2,517,921	\$ 2,945,678	\$ 5,463,599
Restricted Investments	-	106,920	106,920
Receivables (Note 9)	156,360	277,649	434,009
Inventory	-	102,309	102,309
Prepaid Expenses	28,739	26,871	55,610
Capital Assets (Note 5):			
Land and Construction in Progress	967,900	1,343,651	2,311,551
Other Capital Assets, Net of Depreciation	3,715,565	9,538,497	13,254,062
TOTAL ASSETS	\$ 7,386,485	\$ 14,341,575	\$ 21,728,060
Liabilities:			
Accounts Payable	\$ 14,628	\$ 9,606	\$ 24,234
Other Current Liabilities (Note 3)	11,558	21,427	32,985
Long-Term Liabilities (Note 6):			
Due Within One Year	77,699	103,657	181,356
Due in More Than One Year	3,157,779	2,587,530	5,745,309
TOTAL LIABILITIES	3,261,664	2,722,220	5,983,884
Net Assets:			
Invested in Capital Assets, Net of Related Debt	1,481,679	8,236,511	9,718,190
Restricted for:			
Debt Service	-	106,920	106,920
Capital Projects - TIF #4	860,706	-	860,706
BID District	72,001	-	72,001
Culture and Recreation	35,704	-	35,704
Permanently Restricted Purposes			
Expendable	6,712	-	6,712
Nonexpendable	50,000	-	50,000
Unrestricted	1,618,019	3,275,924	4,893,943
TOTAL NET ASSETS	4,124,821	11,619,355	15,744,176
TOTAL LIABILITIES AND NET ASSETS	\$ 7,386,485	\$ 14,341,575	\$ 21,728,060

The accompanying notes are an integral part of the financial statements.

CITY OF CUSTER

STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2009

Functions/Programs	--- Program Revenues ---			Net (Expense) Revenue and ----- Changes in Net Assets -----		
	Expenses	Charges for Services	Operating Grants and Contributions	Governmental Activities	Business-Type Activities	Total
Primary Government						
Governmental Activities:						
General Government	\$ 394,564	\$ 49,174	\$ -	\$ (345,390)	\$ -	\$ (345,390)
Public Safety	321,596	4,299	-	(317,297)	-	(317,297)
Public Works	541,015	48,582	-	(492,433)	-	(492,433)
Health and Welfare	408,947	-	-	(408,947)	-	(408,947)
Culture and Recreation	415,688	21,387	-	(394,301)	-	(394,301)
Conservation and Development	921,412	-	66,748	(854,664)	-	(854,664)
Interest on Long-Term Debt	179,492	-	-	(179,492)	-	(179,492)
Total Governmental Activities	3,182,714	123,442	66,748	(2,992,524)	-	(2,992,524)
Business-Type Activities:						
Liquor	563,442	676,689	-	-	113,247	113,247
Water	577,408	558,254	-	-	(19,154)	(19,154)
Sewer	417,751	375,674	-	-	(42,077)	(42,077)
Solid Waste	132,275	147,960	-	-	15,685	15,685
Total Business-Type Activities	1,690,876	1,758,577	-	-	67,701	67,701
Total Primary Government	\$ 4,873,590	\$ 1,882,019	\$ 66,748	(2,992,524)	67,701	(2,924,823)
General Revenues:						
Taxes:						
Property Taxes				728,317	-	728,317
Sales Taxes				1,485,101	-	1,485,101
State Shared Revenue				14,197	-	14,197
Unrestricted Investment Earnings				39,946	89,797	129,743
Miscellaneous Revenue				42,814	608	43,422
Transfers				(773,116)	773,116	-
Total General Revenue				1,537,259	863,521	2,400,780
Change in Net Assets				(1,455,265)	931,222	(524,043)
Net Assets, Beginning				6,040,093	10,646,488	16,686,581
Prior Period Adjustment (Note 10)				(460,007)	41,645	(418,362)
Net Assets, Beginning as Restated				5,580,086	10,688,133	16,268,219
Net Assets, Ending				\$ 4,124,821	\$ 11,619,355	\$ 15,744,176

The accompanying notes are an integral part of the financial statements.

CITY OF CUSTER

BALANCE SHEET
GOVERNMENTAL FUNDS
DECEMBER 31, 2009

	General Fund	Third Penny (Promotion) Fund	Bid District Fund	Cemetery Perpetual Care Fund	TIF Capital Projects Fund	Total Governmental Funds
Assets						
101 Cash and Cash Equivalents (Note 2)	\$ 187,163	\$ 27,176	\$ 71,135	\$ 6,712	\$ 865,706	\$ 1,157,892
105 Investments (Note 2)	1,304,461	5,568	-	50,000	-	1,360,029
108 Property Taxes Receivable	37,351	-	-	-	-	37,351
110 Sales Taxes Receivable	99,350	6,885	-	-	-	106,235
115 Accounts Receivable	11,908	-	866	-	-	12,774
155 Prepaid Expenses	28,739	-	-	-	-	28,739
Total Assets	\$ 1,668,972	\$ 39,629	\$ 72,001	\$ 56,712	\$ 865,706	\$ 2,703,020
Liabilities and Fund Balances						
<i>Liabilities</i>						
202 Accounts Payable	\$ 5,703	\$ 3,925	\$ -	\$ -	\$ 5,000	\$ 14,628
216 Accrued Wages Payable	10,558	-	-	-	-	10,558
220 Customer Deposits	1,000	-	-	-	-	1,000
224 Deferred Revenue (Note 3)	30,663	-	-	-	-	30,663
Total Liabilities	47,924	3,925	-	-	5,000	56,849
<i>Fund Balances</i>						
262.09 Undesignated	1,621,048	35,704	72,001	56,712	860,706	2,646,171
Total Fund Balances	1,621,048	35,704	72,001	56,712	860,706	2,646,171
Total Liabilities and Fund Balances	\$ 1,668,972	\$ 39,629	\$ 72,001	\$ 56,712	\$ 865,706	\$ 2,703,020

The accompanying notes are an integral part of the financial statements.

CITY OF CUSTER

**RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE GOVERNMENT-WIDE STATEMENT OF NET ASSETS
DECEMBER 31, 2009**

Total Fund Balances - Governmental Funds	\$ 2,646,171
--	--------------

Amounts reported for governmental activities in the Statement
of Net Assets are different because:

Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.	4,683,465
--	-----------

Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore not reported in the funds.	(3,235,478)
--	-------------

Assets such as delinquent taxes receivable are not available to pay for current period expenditures and therefore are deferred in the funds.	30,663
---	--------

Total Net Assets - Governmental Funds	\$ 4,124,821
--	---------------------

The accompanying notes are an integral part of the financial statements.

Cemetery Perpetual Care Fund	TIF Capital Projects Fund	Total Governmental Funds
\$ -	\$ -	\$ 716,161
-	-	1,485,101
-	-	180
-	-	3,123
-	-	44,640
-	-	66,748
-	-	2,892
-	-	11,305
-	-	17,802
-	-	20,468
-	-	28,016
-	-	4,534
-	-	21,387
6,112	-	10,312
-	-	4,299
-	-	39,946
-	-	7,580
-	-	7,218
6,112	-	2,491,712

Cemetery Perpetual Care Fund	TIF Capital Projects Fund	Total Governmental Funds
-	-	117,848
-	-	99,805
-	-	751
-	-	118,596
-	-	61,756
-	-	252,791
-	-	4,944
-	-	357,252
-	-	22,420
-	-	8,947
-	-	400,000
-	-	16,840
-	-	30,951
-	-	49,000
-	-	239,360
-	502,152	921,412
-	-	179,492
-	271,459	394,704
-	773,611	3,276,869
6,112	(773,611)	(785,157)
-	2,407,433	2,536,321
-	(773,116)	(773,116)
-	1,634,317	1,763,205
6,112	860,706	978,048
50,600	-	1,668,123
\$ 56,712	\$ 860,706	\$ 2,646,171

CITY OF CUSTER

**RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES TO THE GOVERNMENT-WIDE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2009**

Net Change in Fund Balances - Total Government Funds \$ 978,048

Amounts reported for governmental activities in the Statement of Activities
are different because:

Government funds report capital outlays as expenditures; however,
in the Statement of Activities the cost of those assets is allocated over
their estimated lives and reported as depreciation expense. This is
the amount by which capital outlays exceeded depreciation in the
current period.

Capital Asset Purchases Capitalized	394,704
Depreciation Expense	(308,830)
	<hr/> 85,874

The governmental fund financial statement property tax accruals
differ from the government-wide statement property tax accruals in that the
fund financial statements require the amounts to be "available."

8,853

Borrowings on long-term debt is an other financing source in the
governmental funds, but increases long-term liabilities in the Statement
of Net Assets.

(2,536,321)

Governmental funds do not reflect the change in accrued leave, but the
Statement of Activities reflects the change in accrued leave through
expenditures.

8,281

Change in Net Assets of Governmental Activities	\$ (1,455,265)
--	-----------------------

The accompanying notes are an integral part of the financial statements.

CITY OF CUSTER

BALANCE SHEET
PROPRIETARY FUNDS
DECEMBER 31, 2009

	Liquor Fund	Water Fund	Sewer Fund	Solid Waste Fund	Total Proprietary Funds
Assets					
Current Assets					
101 Cash and Cash Equivalents (Note 2)	\$ 264,320	\$ 190,665	\$ 51,056	\$ 32,750	\$ 538,791
105 Investments (Note 2)	445,303	496,854	1,457,462	7,268	2,406,887
115 Accounts Receivable, Net	8,715	51,941	110,884	21,211	192,751
121 Special Assessment Receivable	-	4,141	4,141	-	8,282
128 Notes Receivable, Current Portion (Note 3)	-	-	27,359	-	27,359
142 Inventory of Stores Purchased for Resale	102,309	-	-	-	102,309
155 Prepaid Expenses	-	13,436	13,435	-	26,871
Total Current Assets	820,647	757,037	1,664,337	61,229	3,303,250
Noncurrent Asset					
128 Notes Receivable, Long-Term (Notes 3 and 9)	-	-	49,257	-	49,257
107 Restricted Investments	-	106,920	-	-	106,920
Capital Assets (Note 5)					
160 Land	2,500	46,262	521,773	-	570,535
162 Buildings	51,374	575,229	935,954	-	1,562,557
163 Accumulated Depreciation (AD) - Buildings	(50,390)	(307,574)	(624,029)	-	(981,993)
164 Improvements Other Than Buildings	3,601	7,822,876	4,250,283	-	12,076,760
165 AD - Improvements Other Than Buildings	(3,148)	(1,793,356)	(1,590,513)	-	(3,387,017)
166 Machinery and Equipment	17,257	374,398	407,852	11,490	810,997
167 AD - Machinery and Equipment	(17,257)	(324,912)	(189,148)	(11,490)	(542,807)
168 Construction Work in Progress	-	346,265	426,851	-	773,116
Total Noncurrent Assets	3,937	6,846,108	4,188,280	-	11,038,325
Total Assets	\$ 824,584	\$ 7,603,145	\$ 5,852,617	\$ 61,229	\$ 14,341,575
Liabilities and Net Assets					
Current Liabilities					
202 Accounts Payable	\$ 2,960	\$ 505	\$ 5,382	\$ 759	\$ 9,606
205 Current Portion of Long-Term Debt (Note 6)	-	58,107	-	-	58,107
216 Accrued Wages	3,211	3,618	3,618	-	10,447
220 Customer Deposits	-	10,980	-	-	10,980
233 Accrued Leave Payable (Note 6)	4,622	20,464	20,464	-	45,550
Total Current Liabilities	10,793	93,674	29,464	759	134,690
Long-Term Liabilities					
237 Long-Term Debt, Net of Current Portion (Note 6)	-	2,587,530	-	-	2,587,530
Total Liabilities	10,793	2,681,204	29,464	759	2,722,220
Net Assets					
253.1 Invested in Capital Assets, Net of Related Debt	3,937	4,093,551	4,139,023	-	8,236,511
253.21 Net Assets Restricted for Debt Service	-	106,920	-	-	106,920
262.0 Unrestricted Net Assets	809,854	721,470	1,684,130	60,470	3,275,924
Total Net Assets	813,791	4,921,941	5,823,153	60,470	11,619,355
Total Liabilities and Net Assets	\$ 824,584	\$ 7,603,145	\$ 5,852,617	\$ 61,229	\$ 14,341,575

The accompanying notes are an integral part of the financial statements.

CITY OF CUSTER

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS
 PROPRIETARY FUNDS
 FOR THE YEAR ENDED DECEMBER 31, 2009

	Liquor Fund	Water Fund	Sewer Fund	Solid Waste Fund	Total Proprietary Funds
Operating Revenue					
380 Charges for Goods and Services	\$ 676,689	\$ 558,254	\$ 375,674	\$ 147,960	\$ 1,758,577
Operating Expenses					
410 Personal Services	120,093	148,735	147,907	-	416,735
420 Other Current Expenses	42,966	133,388	148,105	132,275	456,734
426.2 Materials (Cost of Goods Sold)	399,135	-	-	-	399,135
457 Depreciation	1,248	188,888	121,739	-	311,875
Total Operating Expenses	563,442	471,011	417,751	132,275	1,584,479
Operating Income (Loss)	113,247	87,243	(42,077)	15,685	174,098
Non-Operating Income (Expense)					
361 Earnings on Deposits and Investments	13,066	46,813	29,286	632	89,797
363 Special Assessments	-	304	304	-	608
470 Interest Expense and Fiscal Charges	-	(106,397)	-	-	(106,397)
Total Non-Operating Income (Expense)	13,066	(59,280)	29,590	632	(15,992)
Income before Contributions	126,313	27,963	(12,487)	16,317	158,106
391.07 Capital Contributions	-	346,265	426,851	-	773,116
Net Income	126,313	374,228	414,364	16,317	931,222
Net Assets - December 31, 2008	688,477	4,556,052	5,357,806	44,153	10,646,488
Prior Period Adjustment (Note 10)	(999)	(8,339)	50,983	-	41,645
Net Assets, Beginning, As Restated	687,478	4,547,713	5,408,789	44,153	10,688,133
Net Assets - December 31, 2009	\$ 813,791	\$ 4,921,941	\$ 5,823,153	\$ 60,470	\$ 11,619,355

The accompanying notes are an integral part of the financial statements.

CITY OF CUSTER

STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2009

	Liquor Fund	Water Fund	Sewer Fund	Solid Waste Fund	Total Proprietary Funds
Cash Flows from Operating Activities:					
Receipts from Customers	\$ 675,324	\$ 558,881	\$ 367,189	\$ 145,149	\$ 1,746,543
Payments to Suppliers	(448,787)	(151,596)	(160,028)	(132,229)	(892,640)
Payments to Employees	(127,316)	(156,456)	(155,614)	-	(439,386)
Net Cash Flows Provided by Operating Activities	99,221	250,829	51,547	12,920	414,517
Cash Flows From Capital and Related Financing Activities:					
Purchase of Capital Assets	-	-	(104,401)	-	(104,401)
Principal Paid on Capital Debt	-	(56,200)	-	-	(56,200)
Interest Expense	-	(106,397)	-	-	(106,397)
Other Receipts	-	304	304	-	608
Net Cash Flows Used in Capital and Related Financing Activities	-	(162,293)	(104,097)	-	(266,390)
Cash Flows Provided by Noncapital Financing Activities:					
Cash Receipts from Notes Receivable	-	-	25,298	-	25,298
Cash Flows Provided by Investing Activities:					
Interest Earned	13,066	46,813	29,286	632	89,797
Increase in Cash and Investments	112,287	135,349	2,034	13,552	263,222
Cash and Investments - December 31, 2008	597,336	659,090	1,506,484	26,466	2,789,376
Cash and Investments - December 31, 2009	\$ 709,623	\$ 794,439	\$ 1,508,518	\$ 40,018	\$ 3,052,598
Reconciliation of Operating Income (Loss) to Net Cash Provided by Operating Activities					
Operating Income (Loss)	\$ 113,247	\$ 87,243	\$ (42,077)	\$ 15,685	\$ 174,098
<i>Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided by Operating Activities:</i>					
Depreciation Expense	1,248	188,888	121,739	-	311,875
Change in Assets and Liabilities:					
Change in Receivables	(1,365)	(1,673)	(8,485)	(2,811)	(14,334)
Change in Inventory	(4,414)	-	-	-	(4,414)
Change in Prepaid Expenses	-	(13,436)	(13,435)	-	(26,871)
Change in Accounts Payable	(2,272)	(4,772)	1,512	46	(5,486)
Change in Accrued Wages	217	51	66	-	334
Change in Customer Deposits	-	2,300	-	-	2,300
Change in Accrued Leave Payable	(7,440)	(7,772)	(7,773)	-	(22,985)
Net Cash Flows Provided by Operating Activities	\$ 99,221	\$ 250,829	\$ 51,547	\$ 12,920	\$ 414,517
Noncash Capital and Related Financing Activities					
Capital Assets Contributed	\$ -	\$ 346,265	\$ 426,851	\$ -	\$ 773,116

The accompanying notes are an integral part of the financial statements.

CITY OF CUSTER

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2009

(1) Summary of Significant Accounting Policies

a. Reporting Entity

The reporting entity of the City of Custer (the City), consists of the primary government (which includes all of the funds, organizations, institutions, agencies, departments, and offices that make up the legal entity, plus those funds for which the primary government has a fiduciary responsibility, even though those fiduciary funds may represent organizations that do not meet the criteria for inclusion in the financial reporting entity); those organizations for which the primary government is financially accountable; and other organizations for which the nature and significance of their relationship with the primary government are such that their exclusion would cause the financial reporting entity's financial statements to be misleading or incomplete.

b. Basis of Presentation

Government-wide Financial Statements:

The Statement of Net Assets and Statement of Activities display information about the reporting entity as a whole. They include all funds of the reporting entity except for fiduciary funds. The statements distinguish between governmental and business-type activities. Governmental activities generally are financed through taxes, intergovernmental revenues, and other non-exchange revenues. Business-type activities are financed in whole or in part by fees charged to external parties for goods or services.

The Statement of Activities presents a comparison between direct expenses and program revenues for each segment of the business-type activities of the City and for each function of the City's governmental activities. Direct expenses are those that are specifically associated with a program or function and, therefore, are clearly identifiable to a particular function. Program revenues include (a) charges paid by recipients of goods and services offered by the programs and (b) grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues, including all taxes, are presented as general revenues.

Fund Financial Statements:

Fund financial statements of the reporting entity are organized into funds, each of which is considered to be a separate accounting entity. Each fund is accounted for by providing a separate set of self-balancing accounts that constitute its assets, liabilities, fund equity, revenues, and expenditures/expenses. Funds are organized into two major categories: governmental and proprietary. An emphasis is placed on major funds within the governmental and proprietary categories. A fund is considered major if it is the primary operating fund of the City or it meets the following criteria:

1. Total assets, liabilities, revenues, or expenditures/expenses of the individual governmental or enterprise fund are at least 10 percent of the corresponding total for all funds of that category or type, and
2. Total assets, liabilities, revenues, or expenditures/expenses of the individual governmental or enterprise fund are at least 5 percent of the corresponding total for all governmental and enterprise funds combined, or
3. Management has elected to classify one or more governmental or enterprise funds as major for consistency in reporting from year to year, or because of public interest in the fund's operations.

CITY OF CUSTER

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2009

(1) Summary of Significant Accounting Policies (Continued)

b. Basis of Presentation (Continued)

Fund Financial Statements (Continued):

The funds of the City financial reporting entity are described below:

Governmental Funds:

General Fund – the General Fund is the general operating fund of the City. It is used to account for all financial resources except those required to be accounted for in another fund. The General Fund is always considered to be a major fund.

Special Revenue Funds – special revenue funds are used to account for the proceeds of specific revenue sources (other than trusts for individuals, private organizations, or other governments or for major capital projects) that are legally restricted to expenditures for specified purposes.

Third Penny Sales Tax Fund – A fund allowed by SDCL 10-52-8 to be used for the purpose of land acquisition, architectural fees, construction costs, payments for civic center, auditorium or athletic facility buildings, including the maintenance, staffing and operations of such facilities, and the staffing and operation of the Custer Chamber of Commerce. This fund is a major fund.

Business Improvement District (BID) Fund – A fund allowed by SDCL 9-55 to account for a \$2 per night occupancy fee charged to motel guests. Motel operators determine how the proceeds are to be spent, usually on advertising to promote the city. This fund is a major fund.

Debt Service Funds – debt service funds are used to account for the accumulation of resources for, and the payment of general long-term debt principal, interest, and related cost. The City has the following debt service funds:

TIF Debt Service Fund – TIF funds are Tax Increment Financing Districts allowed by SDCL 11-9-24 to account for the proceeds of incremental property taxes, restricted to the payment of principal and interest on debt issued to finance a public improvement. Separate accounts are maintained for TIF District #1, #2, #4, and #5 revenues and expenditures. This fund is a major fund.

Capital Projects Fund – capital projects funds are used to account for financial resources to be used for the acquisition or construction of major capital facilities (other than those financed by proprietary funds or trust funds for individuals, private organization, or other governments). The City has the following capital projects fund:

TIF Capital Projects Fund – to account for the construction of infrastructure improvements within tax increment districts #1, #2, #4, and #5.

Permanent Funds – permanent funds are used to account for assets that are permanently set aside and from which only the income from its investments can be used for its stated legal purpose. The City has the following permanent fund:

Cemetery Perpetual Care Fund – A fund allowed by SDCL 9-31-18 to account for payments received for perpetual care of cemeteries. The payments are permanently set aside and only the income from the investments can be used for the care and maintenance of the cemetery. The Cemetery Perpetual Care Fund is a major fund.

CITY OF CUSTER

NOTES TO FINANCIAL STATEMENTS (CONTINUED) DECEMBER 31, 2009

(1) Summary of Significant Accounting Policies (Continued)

b. Basis of Presentation (Concluded)

Proprietary Funds:

Enterprise Funds – Enterprise funds are used to account for activity for which a fee is charged to external users for goods or services. The City has the following enterprise funds:

Liquor Fund – A fund allowed by SDCL 35-3-21 to account for the operation of an on-sale municipal liquor store. The liquor fund is a major fund.

Water Fund – A fund established by SDCL 9-47-1 to provide water to customers within the City of Custer. The water fund is a major fund.

Sewer Fund – A fund established by SDCL 9-48-2 to provide sewer services to customers within the City of Custer. The sewer fund is a major fund.

Solid Waste Fund – A fund established by SDCL 9-32-11 and 34A-6 to account for the collection and disposal of solid waste from the municipality. The solid waste collection fund is a major fund.

Enterprise funds do not apply any FASB Statements and Interpretations issued after November 30, 1989.

Fiduciary Funds:

Fiduciary fund types are used to account for assets held by a governmental unit in a trustee capacity or as an agent for individuals, private organizations, or other governmental units. Fiduciary funds are never considered major funds. The City has no fiduciary funds.

c. Measurement Focus and Basis of Accounting

Measurement focus is a term used to describe how transactions are recorded within the various financial statements. Basis of accounting refers to when revenues and expenditures or expenses are recognized in the accounts and reported in the financial statements, regardless of the measurement focus.

Measurement Focus:

Government-wide Financial Statements:

In the government-wide Statement of Net Assets and Statement of Activities, both governmental and business-type activities are presented using the economic resources measurement focus, applied on the accrual basis of accounting.

Fund Financial Statements:

In the fund financial statements, the current financial resources measurement focus and the modified-accrual basis of accounting are applied to governmental funds, while the economic resources measurement focus and the accrual basis of accounting are applied to the proprietary funds and fiduciary funds.

Basis of Accounting:

Government-wide Financial Statements:

In the government-wide Statement of Net Assets and Statement of Activities, governmental and business-type activities are presented using the accrual basis of accounting. Under the accrual basis of accounting, revenues and related assets are recorded when earned (usually when the right to receive cash vests); and, expenses and related liabilities are recorded when an obligation is incurred (usually when the obligation to pay cash in the future vests).

CITY OF CUSTER

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2009

(1) Summary of Significant Accounting Policies (Continued)

c. Measurement Focus and Basis of Accounting (Continued)

Fund Financial Statements:

All governmental funds are accounted for using the modified-accrual basis of accounting. Their revenues, including property taxes, are recognized when they become measurable and available. Available means resources are collected or to be collected soon enough after the end of the fiscal year that they can be used to pay the bills of the current period. The accrual period does not exceed one bill-paying cycle, and for the City, the length of that cycle is 30 days. The revenues which are accrued at December 31, 2009, are property and sales tax receivable and special assessments receivable.

d. Cash and Cash Equivalents

The City pools the cash and investment resources of its funds for cash management purposes. The proprietary funds essentially have access to the entire amount of cash and investment resources on hand. Accordingly, each proprietary fund's equity in the cash management pool, including restricted investments, is considered to be cash and cash equivalents for the purposes of the Statement of Cash Flows.

e. Capital Assets

Capital assets include land, buildings, machinery and equipment, and all other tangible or intangible assets that are used in operations and that have initial useful lives extending beyond a single reporting period. Infrastructure assets are long-lived capital assets that normally are stationary in nature and can be preserved for a significantly greater number of years than most capital assets.

The accounting treatment over capital assets depends on whether the assets are used in governmental fund operations or proprietary fund operations and whether they are reported in the government-wide or fund financial statements.

Government-wide Financial Statements:

Capital assets are recorded at historical cost, or estimated cost, where actual cost could not be determined. Donated capital assets are valued at their estimated fair value on the donation date. Reported cost values include ancillary charges necessary to place the asset into its intended location and condition for use. Subsequent to initial capitalization, improvements or betterments that are significant and which extend the useful life of a capital asset are also capitalized.

Infrastructure assets used in general government operations, consisting of certain improvements other than buildings, including roads, bridges, sidewalks, drainage systems, and lighting systems, acquired prior to January 1, 2004, were not required to be capitalized by the City. Infrastructure assets acquired since January 1, 2004, are recorded at cost, and classified as Improvements Other Than Buildings.

The total December 31, 2009 and 2008, balance of governmental activities capital assets includes approximately two percent for which the costs were determined by estimates of the original costs. These estimated original costs were established by reviewing applicable historical costs of similar items and basing the estimations thereon.

Construction-period interest for capital assets used in governmental activities is not capitalized in accordance with USGAAP; however, construction period interest for capital assets used in business-type activities/proprietary fund's operations, is capitalized in accordance with USGAAP.

CITY OF CUSTER

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2009

(1) Summary of Significant Accounting Policies (Continued)

e. Capital Assets (Continued)

Government-wide Financial Statements (Continued):

Depreciation of all exhaustible capital assets is recorded as an allocated expense in the government-wide Statement of Activities, with net capital assets reflected in the Statement of Net Assets. Accumulated depreciation is reported on the government-wide Statement of Net Assets and on each proprietary fund's Balance Sheet.

Capitalization thresholds (the dollar values above which asset acquisitions are added to the capital asset accounts), depreciation methods, and estimated useful lives of capital assets reported in the government-wide statements and proprietary funds are as follows:

	Capitalization Threshold	Depreciation Method	Estimated Useful Life
Land	\$ -0-	----N/A----	----N/A----
Improvements Other Than Buildings	\$ 5,000	Straight-line	3-100 yrs.
Buildings	\$ 5,000	Straight-line	33-50 yrs.
Machinery and Equipment	\$ 5,000	Straight-line	5-25 yrs.

Land is an inexhaustible capital asset and is not depreciated.

Fund Financial Statements:

In the governmental fund financial statements, capital assets used in governmental fund operations are accounted for as capital outlay expenditures of the appropriate governmental fund upon acquisition. Capital assets used in proprietary fund operations are accounted for on the accrual basis, the same as in the government-wide statements.

f. Long-Term Liabilities

The accounting treatment of long-term liabilities depends on whether the assets are used in governmental fund operations or proprietary fund operations and whether they are reported in the government-wide or fund financial statements.

All long-term liabilities to be repaid from governmental and business-type resources are reported as liabilities in the government-wide statements. The long-term liabilities primarily consist of TIF obligations, water revenue bonds, and compensated absences.

In the governmental fund financial statements, debt proceeds are reported as revenues (other financing sources), while payments of principal and interest are reported as expenditures when they become due. The accounting for proprietary fund long-term debt is on the accrual basis for both the fund statements and the government-wide statements.

CITY OF CUSTER

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2009

(1) Summary of Significant Accounting Policies (Continued)

g. Program Revenues

Program revenues are derived directly from the program itself or from parties other than the City's taxpayers or citizenry, as a whole. Program revenues are classified into three categories, as follows:

1. Charges for services – arise from charges to customers, applicants, or others who purchase, use, or directly benefit from the goods, services, or privileges provided, or are otherwise directly affected by the services.
2. Program-specific operating grants and contributions – arise from mandatory and voluntary non-exchange transactions with other governments, organizations, or individuals and are restricted for use in a particular program.
3. Program-specific capital grants and contributions – arise from mandatory and voluntary non-exchange transactions with other governments, organizations, or individuals and are restricted for the acquisition of capital assets for use in a particular program.

h. Proprietary Funds Revenue and Expense Classifications

In the proprietary fund's Statement of Activities, revenues and expenses are classified in a manner consistent with how they are classified in the Statement of Cash Flows. That is, transactions for which related cash flows are reported as capital and related financing activities, non-capital financing activities, or investing activities are not reported as components of operating revenues or expenses.

i. Application of Net Assets

It is the City's policy to first use restricted net assets, prior to the use of unrestricted net assets, when an expense is incurred for purposes for which both restricted and unrestricted net assets are available.

j. Equity Classifications

Government-wide Financial Statements:

Equity is classified as net assets and is displayed in three components:

1. Invested in capital assets, net of related debt – consists of capital assets, including restricted capital assets, net of accumulated depreciation (if applicable) and reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.
2. Restricted net assets – consists of net assets with constraints placed on their use either by (a) external groups such as creditors, grantors, contributors, or laws and regulations of other governments; or (b) laws through constitutional provisions or enabling legislation.
3. Unrestricted net assets – all other net assets that do not meet the definition of restricted or invested in capital assets, net of related debt.

CITY OF CUSTER

NOTES TO FINANCIAL STATEMENTS (CONTINUED) DECEMBER 31, 2009

(1) Summary of Significant Accounting Policies (Concluded)

j. Equity Classifications (Continued)

Fund Financial Statements:

Governmental fund equity is classified as fund balance, and may distinguish between Reserved and Unreserved components. Proprietary fund equity is classified the same as in the government-wide financial statements.

k. Compensated Absences

Eligible employees earn sick leave after six years of employment, and will be paid a maximum of 240 hours upon termination. Eligible employees can earn vacation leave based on years of service, and will be paid upon termination.

l. Inventory

Inventory consists of inventory held for resale, which is recorded at the lower of cost or market, using the first-in, first-out method.

Inventory is recorded as an asset at the time of purchase, and charged to expense as it is consumed.

(2) Deposits and Investments

The City follows the practice of aggregating the cash assets of various funds to maximize cash management efficiency and returns. Various restrictions on deposits and investments are imposed by statutes. These restrictions are summarized below:

Deposits – The City's cash deposits are made in qualified public depositories as defined by SDCL 4-6A-1, 9-22-6, 9-22-6.1 and 9-22-6.2, and may be in the form of demand or time deposits. Qualified depositories are required by SDCL 4-6A-3 to maintain at all times, segregated from their other assets, eligible collateral having a value equal to at least 100 percent of the public deposit accounts which exceed deposit insurance such as the FDIC and NCUA. In lieu of pledging eligible securities, a qualified public depository may furnish irrevocable standby letters of credit issued by Federal Home Loan Banks accompanied by written evidence of that bank's public debt rating which may not be less than "AA" or a qualified public depository may furnish a corporate surety bond of a corporation duly authorized to do business in South Dakota.

Investments – In General, SDCL 4-5-6 permits City funds to be invested in (a) securities of the United States and securities guaranteed by the United States government either directly or indirectly including, without limitation, United States treasury bills, notes, bonds, and other obligations issued or directly or indirectly guaranteed by the United States government, or otherwise directly or indirectly backed by the full faith and credit of the United States government; provided that, for other than permanent, trust, retirement, building, and depreciation reserve funds, such securities shall either mature within eighteen months from the date of purchase or be redeemable at the option of the holder within eighteen months from the date of purchase; or (b) repurchase agreements fully collateralized by securities described in (a) and meeting the requirements of § 4-5-9, if the repurchase agreements are entered into only with those primary reporting dealers that report to the Federal Reserve Bank of New York and with the one hundred largest United States commercial banks, as measured by domestic deposits; or (c) in shares of an open-end, no-load fund administered by an investment company registered under the Federal Investment Company Act of 1940, whose shares are registered under the Federal Securities Act of 1933 and whose only investments are in securities described in (a) and repurchase agreements described in (b).

CITY OF CUSTER

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2009

(2) Deposits and Investments (Continued)

Also, SDCL 4-5-9 requires investments to be in the physical custody of the City or deposited with any bank or trust account designated by the City as its fiscal agent.

Investment	Credit Rating	Maturity	Fair Value
Money Market	Unrated	N/A	\$ 1,195,467
U.S. Government Securities			
US Tips - 0.625% - 2%	AAA	3.5-6 years	474,627
US Treasury Strips - 0%	AAA	7-8 years	152,772
External Investment Pools:			
SDFIT	Unrated		176,915
Total Investments			\$ 1,999,781

Interest Rate Risk:

The City does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Credit Risk:

State law limits eligible investments for the City, as discussed above. The City has no investment policy that would further limit its investment choices.

Custodial Credit Risk:

The risk that, in the event of a depository failure, the City's deposits may not be returned to it. The City does not have a deposit policy for custodial credit risk. As of December 31, 2009, none of the City's deposits were exposed to custodial credit risk.

The South Dakota Public Fund Investment Trust (SDFIT) is an external investment pool created for South Dakota local government investing. It is regulated by a nine-member board with representation from municipalities, school districts, and counties. The net asset value of the SDFIT money market account (GCR) is kept at one dollar per share by adjusting the rate of return on a daily basis. Earnings are credited to each account on a monthly basis.

State law allows income from deposits and investments to be credited to either the General Fund or the fund making the investment. The City's policy is to credit all income from investments to the fund making the investment, except for the Cemetery Perpetual Care Fund income, which is credited to the General Fund as required by state law.

Concentration of Credit Risk

The City places no limit on the amount that may be invested in any one issuer. The City only has cash, certificates of deposit, and government securities.

(3) Deferred Revenue

Under the modified-accrual basis of accounting, receivables may be measured, but not available. Receivables are considered available if they are collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. Revenues are deferred when the asset recognition criteria have been met, but the revenue recognition criteria have not been met. Deferred revenues consist primarily of delinquent property taxes receivable.

CITY OF CUSTER

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2009

(4) Property Taxes

Property taxes attach as an enforceable lien on property as of January 1 of each year. Taxes are levied on or before October 1 and payable in two installments before April 30 and October 31 of the following year. The county bills and collects the taxes and remits them to the City. The City is permitted by several state statutes to levy varying amounts of taxes per \$1,000 of taxable valuation on taxable real property in the City.

(5) Changes in Capital Assets

A summary of changes in capital assets for year ending December 31, 2009 is as follows:

	Balance 1/1/2009	Additions	Deletions	Balance 12/31/2009
<i>Governmental Activities:</i>				
Capital Assets, not being Depreciated:				
Land	\$ 684,206	\$ -	\$ -	\$ 684,206
Construction Work in Progress	-	283,694	-	283,694
Total Capital Assets, not being Depreciated	684,206	283,694	-	967,900
Capital Assets, being Depreciated:				
Buildings	679,955	40,000	-	719,955
Improvements Other Than Buildings	3,429,801	71,010	-	3,500,811
Machinery and Equipment	1,858,254	-	-	1,858,254
Total Capital Assets, being Depreciated	5,968,010	111,010	-	6,079,020
Less Accumulated Depreciation for:				
Buildings	398,361	10,124	-	408,485
Improvements Other Than Buildings	374,788	170,251	-	545,039
Machinery and Equipment	1,281,476	128,455	-	1,409,931
Total Accumulated Depreciation	2,054,625	308,830	-	2,363,455
Total Governmental Activities Capital Assets, being Depreciated, Net	3,913,385	(197,820)	-	3,715,565
Total Governmental Capital Assets, Net	\$ 4,597,591	\$ 85,874	\$ -	\$ 4,683,465

Depreciation expense was charged to functions as follows:

Public Safety	\$ 63,861
Public Works	161,343
Culture and Recreation	79,537
General Government	4,089
Total Depreciation Expense - Governmental	\$ 308,830

CITY OF CUSTER

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2009

(5) Changes in Capital Assets (Continued)

	Balance 1/1/2009	Additions	Deletions	Balance 12/31/2009
<i>Business-Type Activities:</i>				
Capital Assets, not being Depreciated:				
Land	\$ 570,535	\$ -	\$ -	\$ 570,535
Construction Work in Progress	-	773,116	-	773,116
Total Capital Assets, not being Depreciated	570,535	773,116	-	1,343,651
Capital Assets, being Depreciated:				
Buildings	1,562,557	-	-	1,562,557
Improvements Other Than Buildings	12,076,760	-	-	12,076,760
Machinery and Equipment	706,597	104,400	-	810,997
Total Capital Assets, being Depreciated	14,345,914	104,400	-	14,450,314
Less Accumulated Depreciation for:				
Buildings	959,157	22,836	-	981,993
Improvements Other Than Buildings	3,127,947	259,070	-	3,387,017
Machinery and Equipment	512,838	29,969	-	542,807
Total Accumulated Depreciation	4,599,942	311,875	-	4,911,817
Total Business-Type Activities Capital Assets, being Depreciated, Net	9,745,972	(207,475)	-	9,538,497
Total Business-Type Capital Assets, Net	\$ 10,316,507	\$ 565,641	\$ -	\$ 10,882,148

Depreciation expense was charged to functions as follows:

Sewer	\$ 121,739
Water	188,888
Liquor	1,248
Total Depreciation Expense - Business-Type	\$ 311,875

The TIF Capital Projects Fund transferred water and sewer improvements totaling \$773,116 to the Water and Sewer Funds.

As of December 31, 2009, the City has signed no construction commitments for governmental or business-type activities. The City will finance the completion of construction in progress through cash on hand and debt borrowings.

CITY OF CUSTER

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2009

(6) Long-Term Debt

The following is a summary of the long-term debt activity for the year ending December 31, 2009:

	Balance 1/1/2009	Earned/ Borrowings	Used/ Repayments	Balance 12/31/2009	Due Within One Year
Primary Government:					
Governmental Activities:					
TIF #1 - Boothill	\$ 665,465	\$ -	\$ -	\$ 665,465	\$ -
TIF #2 - Stonehill	-	1,238,821	-	1,238,821	-
TIF #4 - Downtown	-	900,000	-	900,000	44,007
TIF #5 - Pamida	-	397,500	-	397,500	-
Compensated Absences	41,973	30,795	39,076	33,692	33,692
Total Governmental Activities	707,438	2,567,116	39,076	3,235,478	77,699
Business-Type Activities:					
2003 SRF Water Revenue Bond	654,481	-	33,300	621,181	34,484
2007 USDA Water Revenue Bond	2,047,355	-	22,899	2,024,456	23,623
Compensated Absences	68,536	32,555	55,541	45,550	45,550
	2,770,372	32,555	111,740	2,691,187	103,657
Total Primary Government	\$ 3,477,810	\$ 2,599,671	\$ 150,816	\$ 5,926,665	\$ 181,356

Interest expense for the year ended December 31, 2009 was \$285,889.

Tax Increment Financing Obligations

Tax increment financing is a method of financing improvements and development in an area which has been determined to be blighted according to the criteria set forth in SDCL 11-9. In some instances the City pledges future tax revenues generated by the tax increment district to acquire public improvements within the established Tax Increment District which were constructed by a private developer.

It is a specific condition of the developer's agreement and a condition of the City's obligation that all sums payable shall be limited to the proceeds of the positive tax increment. It is also specifically agreed that the City has made no representation that the proceeds from such funds shall be sufficient to retire the indebtedness incurred by the developer to construct the public improvements.

During the year ended December 31, 2009, property tax revenues were \$47,319, \$2,656, and \$629 for TIF #1, #4, and #2, respectively. Interest expenditures related to TIF Obligations totaled \$179,492.

Long-term debt at December 31, 2009, is comprised of the following:

Revenue Bonds

Series 2003 SRF Water Revenue Bonds for \$800,000, matures in February 2024, interest at 3.0 percent, due in monthly installments of \$4,640. Financed through the Water Fund. \$ 621,181

2007 USDA Water Loan for \$2,091,423, matures in January 2047, interest at 4.125 percent, due in monthly installments of \$8,910. Financed through the Water Fund. 2,024,456

Total Revenue Bonds **2,645,637**

CITY OF CUSTER

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2009

(6) Long-Term Debt (Continued)

Tax Increment Financing Obligations

TIF #1, including interest at 6.0 percent, due in varying semi-annual installments of incremental property taxes collected. Financed through the TIF Debt Service Fund. \$ 665,465

TIF #2, including interest at 9.0 percent, due in varying installments within 30 days of property tax collection from the county. Financed through the TIF Debt Service Fund. 1,238,821

TIF #4, including variable interest at 5.0 percent at December 31, 2009, (not less than 4.50 percent, and not to exceed 7.0 percent), due in varying semi-annual installments of incremental property taxes collected. Financed through the TIF Debt Service Fund. 900,000

TIF #5, including interest at 7.0 percent, due in varying semi-annual installments of incremental property taxes collected. Financed through the TIF Debt Service Fund. 397,500

Total Tax Increment Financing Obligations 3,201,786

Compensated Absences

General Fund 33,692

Liquor Fund 4,622

Water Fund 20,464

Sewer Fund 20,464

Total Compensated Absences 79,242

Total Long-Term Debt \$ 5,926,665

The annual requirements to amortize long-term debt outstanding as of December 31, 2009, except for compensated absences, are as follows:

	Revenue Bonds		(a) TIF Obligations		Total	
	Interest	Principal	Interest	Principal	Interest	Principal
2010	\$ 104,497	\$ 58,107	\$ 141,460	\$ 44,007	\$ 245,957	\$ 102,114
2011	102,277	60,328	236,397	70,746	338,674	131,074
2012	99,970	62,635	229,803	99,554	329,773	162,189
2013	97,575	65,030	209,737	141,834	307,312	206,864
2014	95,088	67,517	223,503	150,282	318,591	217,799
2015-2019	434,643	378,380	1,014,135	1,330,572	1,448,778	1,708,952
2020-2024	357,010	409,616	257,362	1,364,791	614,372	1,774,407
2025-2029	296,172	238,471	-	-	296,172	238,471
2030-2034	241,578	293,065	-	-	241,578	293,065
2035-2039	174,486	360,156	-	-	174,486	360,156
2040-2044	92,035	442,608	-	-	92,035	442,608
2045-2047	324,918	209,724	-	-	324,918	209,724
Total	\$ 2,420,249	\$ 2,645,637	\$ 2,312,397	\$ 3,201,786	\$ 4,732,646	\$ 5,847,423

- (a) TIF Obligation maturities are based on project plan amortization schedules. Actual repayments could vary dependent on property tax increments received. TIF #1 is projected to be deficient in repaying the principal balance based on expected property tax increments. The amount of deficiency is not known at December 31, 2009.

CITY OF CUSTER

NOTES TO FINANCIAL STATEMENTS (CONTINUED) DECEMBER 31, 2009

(7) Retirement Plan -- South Dakota Retirement System

All full-time employees participate in the South Dakota Retirement System (SDRS), a cost-sharing multiple employer public employee retirement system established to provide retirement benefits for employees of the State of South Dakota and its political subdivisions. The SDRS provides retirement, disability, and survivors' benefits. The right to receive retirement benefits vests after three years of credited service. Authority for establishing, administering and amending plan provisions are found in South Dakota Codified Law 3-12. The SDRS issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained by writing to the SDRS, P.O. Box 1098, Pierre, SD 57501-1098 or by calling (605) 773-3731.

General employees are required by state statute to contribute six percent of their salary to the plan, while public safety and judicial employees contribute eight and nine percent, respectively. State statute also requires the employer to contribute an amount equal to the employee's contribution. State statute also requires the employer to make an additional contribution in the amount of 6.2 percent for any compensation exceeding the maximum taxable amount for social security for general employees only. The City's share of contributions to the SDRS for the fiscal years ended December 31, 2009, 2008, and 2007 were \$38,878, \$32,961, and \$26,245, respectively, equal to the required contributions each year.

(8) Risk Management

The City is exposed to various risks of loss related to torts; theft; damage or destruction of assets; errors or omissions; injuries to employees; and natural disasters. During the year ending December 31, 2009, the City managed its risks as follows:

Employee Health Insurance:

The City purchases health insurance for its employees from a commercial insurance carrier. Settled claims resulting from these risks have not exceeded the liability coverage during the past three years.

Liability Insurance:

The City purchases liability insurance for risks related to torts; theft or damage to property; and errors and omissions of public officials from a commercial insurance carrier. Settled claims resulting from these risks have not exceeded the liability coverage during the past three years.

Worker's Compensation:

The City joined the South Dakota Municipal League Worker's Compensation Fund (the Fund), a public entity risk pool currently operating as a common risk management and insurance program for South Dakota local government entities. The objective of the Fund is to formulate, develop, and administer, on behalf of member organizations, a program of worker's compensation coverage, to obtain lower costs for that coverage, and to develop a comprehensive loss control program. The City's responsibility is to initiate and maintain a safety program to give its employees safe and sanitary working conditions and to promptly report to and cooperate with the Fund to resolve any worker's compensation claims. The City pays an annual premium to the pool to provide worker's compensation coverage for its employees, under a self-funded program, and the premiums are accrued based on the ultimate cost of the experience to date of the Fund members. Coverage limits are set by state statute. The pool pays the first \$650,000 of any claim per individual. The pool has reinsurance which covers up to statutory limits in addition to a separate combined employer liability of \$2,000,000 per incident.

The City does not carry additional insurance to cover claims in excess of the upper limit. Settled claims resulting from these risks have not exceeded the liability coverage over the past three years.

CITY OF CUSTER

**NOTES TO FINANCIAL STATEMENTS (CONCLUDED)
DECEMBER 31, 2009**

(8) Risk Management (Continued)

Unemployment Benefits:

The City provides coverage for unemployment benefits by paying into the Unemployment Compensation Fund established by state law and managed by the State of South Dakota.

(9) Notes Receivable

In 1992, the City entered into an agreement with a nonprofit organization for sewer improvements. The agreement calls for the organization to pay the City \$2,397 in monthly installments, including interest at 2.25 percent, through September 2012. This amount is reflected in the financial statements as long-term notes receivable in the Sewer Fund.

(10) Prior Period Adjustments

Sick leave was not accrued in the prior year. The accrued leave liability was understated by \$17,676 for proprietary funds on the Proprietary Funds Balance Sheet and \$9,944 for governmental activities on the Government Wide Statement of Net Assets at December 31, 2008. In addition, the Sewer Fund accounts receivable were understated by \$59,321 on the Proprietary Funds Balance Sheet. Finally, a portion of the debt pertaining to TIF #1 – Boothill was not recorded in the prior year. The long-term liability was understated by \$450,063 on the Government Wide Statement of Net Assets. The effect on the 2008 revenue and expenses of the City has not been determined.

REQUIRED SUPPLEMENTARY INFORMATION

CITY OF CUSTER

**BUDGETARY COMPARISON SCHEDULE
GENERAL FUND - BUDGETARY BASIS
FOR THE YEAR ENDED DECEMBER 31, 2009**

	Original Budget	Final Budget	Actual - Budgetary Basis	Variance
Revenue				
<i>Taxes:</i>				
311 General Property Taxes	\$ 644,700	\$ 661,000	\$ 665,557	\$ 4,557
313 General Sales and Use Taxes	1,050,000	1,050,000	1,160,059	110,059
315 Amusement Taxes	700	700	180	(520)
319 Penalties and Interest on Delinquent Taxes	1,000	1,000	3,123	2,123
320 Licenses and Permits	79,900	79,900	44,640	(35,260)
<i>Intergovernmental Revenue:</i>				
State Shared Revenue:				
335.01 Bank Franchise Tax	2,900	2,900	2,892	(8)
335.03 Liquor Tax Reversion	10,000	10,000	11,305	1,305
335.04 Motor Vehicle Licenses (5%)	15,000	15,000	17,802	2,802
335.08 Local Government Highway and Bridge Fund	18,000	18,000	20,468	2,468
County Shared Revenue:				
338.02 County HBR Tax	26,000	26,000	28,016	2,016
<i>Charges for Goods and Services:</i>				
341 General Government	2,600	2,600	4,534	1,934
346 Culture and Recreation	17,600	17,600	21,387	3,787
348 Cemetery	3,500	3,500	4,200	700
350 Fines and Forfeits	3,900	3,900	4,299	399
<i>Miscellaneous Revenue:</i>				
361 Earnings on Deposits and Investments	150,000	150,000	39,567	(110,433)
362 Rentals	6,500	6,500	7,580	1,080
369 Other	2,300	2,300	7,218	4,918
Total Revenue	2,034,600	2,050,900	2,042,827	(8,073)

CITY OF CUSTER

BUDGETARY COMPARISON SCHEDULE (CONTINUED)

GENERAL FUND - BUDGETARY BASIS

FOR THE YEAR ENDED DECEMBER 31, 2009

	Original Budget	Final Budget	Actual - Budgetary Basis	Variance
Expenditures				
<i>General Government:</i>				
411 Legislative	145,800	145,800	117,848	27,952
412 Executive	212,300	212,300	99,805	112,495
413 Elections	1,000	1,000	751	249
414 Financial Administration	81,500	141,500	118,596	22,904
419 Other	56,000	71,000	61,756	9,244
<i>Public Safety:</i>				
421 Police	326,500	336,500	329,636	6,864
429 Other	10,000	10,000	4,944	5,056
<i>Public Works:</i>				
431 Highways and Streets	516,300	516,300	357,252	159,048
437 Cemeteries	24,000	24,000	22,420	1,580
<i>Health and Welfare:</i>				
441 Health	1,000	1,000	-	1,000
444 Humane Society	9,000	10,000	8,947	1,053
447 Hospitals, Nursing Homes, and Rest Homes	400,000	400,000	400,000	-
<i>Culture and Recreation:</i>				
451 Custer Cruisin'	-	16,800	16,840	(40)
451 Swimming	48,000	48,000	30,951	17,049
451 Cultural Programs	44,000	50,000	49,000	1,000
452 Parks	205,900	280,900	285,760	(4,860)
<i>Conservation and Development:</i>				
465 Economic Development and Assistance	33,000	33,000	33,000	-
Total Expenditures	2,114,300	2,298,100	1,937,506	360,594
Excess of Revenue Over (Under)				
Expenditures	(79,700)	(247,200)	105,321	352,521
Other Financing Sources:				
391.1 Transfers In	81,000	81,000	-	(81,000)
Net Change in Fund Balance	1,300	(166,200)	105,321	271,521
Fund Balance - December 31, 2008	1,515,727	1,515,727	1,515,727	-
Fund Balance - December 31, 2009	\$ 1,517,027	\$ 1,349,527	\$ 1,621,048	\$ 271,521

The accompanying notes to required supplementary information are an integral part of this statement.

CITY OF CUSTER

**BUDGETARY COMPARISON SCHEDULE
THIRD PENNY (PROMOTION) FUND - BUDGETARY BASIS
FOR THE YEAR ENDED DECEMBER 31, 2009**

	Original Budget	Final Budget	Actual - Budgetary Basis	Variance
Revenue				
313 General Sales and Use Taxes	\$ 163,000	\$ 163,000	\$ 176,890	\$ 13,890
361 Earnings on Deposits and Investments	2,000	2,000	379	(1,621)
Total Revenue	165,000	165,000	177,269	12,269
Expenditures				
465 Economic Development and Assistance	165,000	165,000	168,175	(3,175)
Net Change in Fund Balance	-	-	9,094	9,094
Fund Balance - December 31, 2008	26,610	26,610	26,610	-
Fund Balance - December 31, 2009	\$ 26,610	\$ 26,610	\$ 35,704	\$ 9,094

The accompanying notes to required supplementary information are an integral part of this statement.

CITY OF CUSTER

**BUDGETARY COMPARISON SCHEDULE
 BID DISTRICT FUND - BUDGETARY BASIS
 FOR THE YEAR ENDED DECEMBER 31, 2009**

	Original Budget	Final Budget	Actual - Budgetary Basis	Variance
Revenue				
313 General Sales and Use Taxes	\$ 150,000	\$ 204,000	\$ 148,152	\$ (55,848)
334 State Grants	-	-	66,748	66,748
Total Revenue	150,000	204,000	214,900	10,900
Expenditures				
465 Economic Development and Assistance	150,000	218,000	218,085	(85)
Net Change in Fund Balance	-	(14,000)	(3,185)	10,815
Fund Balance - December 31, 2008	75,186	75,186	75,186	-
Fund Balance - December 31, 2009	\$ 75,186	\$ 61,186	\$ 72,001	\$ 10,815

The accompanying notes to required supplementary information are an integral part of this statement.

CITY OF CUSTER

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION DECEMBER 31, 2009

(1) Budgets and Budgetary Accounting

The City follows these procedures in establishing the budgetary data reflected in the financial statements:

1. At the first regular board meeting in September of each year or within ten days thereafter, the governing board introduces the annual appropriation ordinance for the ensuing fiscal year.
2. After adoption by the governing board, the operating budget is legally binding and actual disbursements for each purpose cannot exceed the amounts budgeted, except as indicated in item number four.
3. A line item for contingencies may be included in the annual budget. Such a line item may not exceed five percent of the total municipal budget and may be transferred by resolution of the governing board to any other budget category that is deemed insufficient during the year.
4. If it is determined during the year that sufficient amounts have not been budgeted, state statute allows the adoption of supplemental budgets.
5. Unexpended appropriations lapse at year-end unless encumbered by resolution of the governing board.
6. The City did not encumber any amounts at December 31, 2009.
7. Formal budgetary integration is employed as a management control device during the year for the general fund and major special revenue funds.
8. Budgets for the general fund and major special revenue funds are adopted on a basis consistent with the modified-cash basis of accounting, except for the following:

The financial statements prepared in conformity with USGAAP present capital outlay expenditure information in a separate category of expenditures. Under the budgetary basis of accounting, capital outlay expenditures are reported within the function to which they relate. For example, the purchase of a new fire truck would be reported as a capital outlay expenditure on the Governmental Funds Statement of Revenues, Expenditures and Changes in Fund Balances; however, in the Budgetary RSI Schedule, the purchase of a fire truck would be reported as an expenditure of the Public Safety/Fire Department function of government, along with all other current Fire Department related expenditures.

OTHER REPORTS



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REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

City Council
City of Custer
Custer, South Dakota

We have audited the financial statements of the governmental activities, the business-type activities, and each major fund of the **CITY OF CUSTER** (the City) as of and for the year ended December 31, 2009, which collectively comprise the City's basic financial statements, and have issued our report thereon dated June 23, 2010. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control over Financial Reporting

In planning and performing our audit, we considered the City's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the accompanying Auditor's Comments and Closing Conference, we identified certain deficiencies in internal control over financial reporting that we consider to be material weaknesses and other deficiencies that we consider to be significant deficiencies.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the City's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying Auditor's Comments and Closing Conference as Findings #09-1, #09-2, and #09-3 to be material weaknesses.

A significant deficiency is a deficiency or a combination of deficiencies in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies described in the accompanying Auditor's Comments and Closing Conference as Findings #09-4, #09-5, and #09-6 to be significant deficiencies.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed one instance of noncompliance or other matters that is required to be reported under Government Auditing Standards and which is described in the accompanying Auditor's Comments and Closing Conference as #09-6.

The City's responses to the findings identified in our audit are described in the accompanying Auditor's Comments and Closing Conference. We did not audit the City's responses and, accordingly, we express no opinion on them.

This report is intended solely for the information and use of the Mayor, City Council, and management, and is not intended to be, and should not be, used by anyone other than those specified parties. However, as required by South Dakota Codified Law 4-11-11, this report is a matter of public record and its distribution is not limited.

A handwritten signature in black ink that reads "Ketel Thorstenson, LLP". The signature is written in a cursive, flowing style.

KETEL THORSTENSON, LLP
Certified Public Accountants

June 23, 2010

CITY OF CUSTER

AUDITOR'S COMMENTS AND CLOSING CONFERENCE DECEMBER 31, 2009

A. Status of Prior Audit Findings and Recommendations

The City has moved their out-of-state deposits to government securities and in-state banks. Thus, finding 08-1 will not be repeated in the current year.

B. Current Year Audit Findings and Recommendations

SIGNIFICANT DEFICIENCIES – CONSIDERED MATERIAL WEAKNESSES

09-1 FINDING: Financial Statement Preparation

Finding and Analysis: We were requested to draft the audited financial statements and related footnote disclosures as part of our regular audit services. Ultimately, it is management's responsibility to provide for the preparation of the City's statements and footnotes, and the responsibility of the auditor to determine the fairness and presentation of those statements. From a practical standpoint, we do both for the City at the same time in connection with our audit. This is not unusual for municipalities of your size. However, it is our responsibility to inform the City Council that this deficiency could result in a material misstatement to the financial statements that could have been prevented or detected by the City's management. We have instructed management to review a draft of the auditor-prepared financials in detail for their accuracy; we have answered any questions they might have, and have encouraged research of any accounting guidance in connection with the adequacy and appropriateness of classification and disclosure in your statements. We are satisfied that the appropriate steps have been taken to provide the City with the completed financial statements.

Recommendation: It is the responsibility of management and those charged with governance to make the decision whether to accept the degree of risk associated with this condition because of cost or other considerations.

Response: It appears to be very common for the Auditors to draft the audited financial statements. The Finance Officer has reviewed the draft and will address any questions with the Auditor.

09-2 FINDING: Internal Control over Significant Accounts

Finding and Analysis: During the course of our engagement, we proposed material audit adjustments. Adjustments included correcting cash (\$72,438), correcting debt balances (\$877,516), recording both governmental and proprietary capital assets (\$1,122,369), adjusting accrued leave (\$38,064), customer deposits (\$500), highway/bridge receivable (\$3,970), reclassifying expenses (\$42,144), and correcting beginning fund balance figures (\$20,884). These adjustments would not have been identified as a result of the City's existing internal controls, and therefore, could have resulted in a material misstatement of the City's financial statements.

Recommendation: We recommend that management consider the following:

- a. Cash accounts should be reconciled on a monthly basis.
- b. All debt balances and repayments should be tracked throughout the year, including TIF debt.
- c. Capital assets should be recorded when costs exceed \$5,000 and the useful lives exceed one year.
- d. Accrued leave should be adjusted at least annually.
- e. Customer deposits and accounts receivable should be reconciled at least quarterly to subsidiary schedules.
- f. Expenses should be coded based on the most appropriate functional basis.
- g. The fund balances and net asset balances of all funds should be reconciled to the annual audit each year.

Response: Cash accounts are being reconciled on a monthly basis. We have created spreadsheets to track the debt balances and payments, especially the TIF's. Capital assets will be monitored closely and input into the fixed assets system as acquired or as construction progresses. Accrued leave will be adjusted annually as it has in the past, however we will make sure to include the sick leave. Customer deposits and accounts receivable will be monitored and reconciled throughout the year. We will be doing some reclassification of our coding to coincide with the Municipal Accounting Manual. We will verify and make adjustments accordingly to have the fund balances and net asset balances balance to this audit.

CITY OF CUSTER

AUDITOR'S COMMENTS AND CLOSING CONFERENCE (CONTINUED)
DECEMBER 31, 2009

B. Current Year Audit Findings and Recommendations (Continued)

SIGNIFICANT DEFICIENCIES – CONSIDERED MATERIAL WEAKNESSES (CONTINUED)

09-3 FINDING: Subsidiary Listings

Finding and Analysis:

- a. *Bank Reconciliations:* During our work, we noted a \$79,499 variance in the bank reconciliation at December 31, 2009. We noted that the balance did not reconcile throughout 2009. We determined that a few adjusting journal entries were posted in error. In addition, we determined that the savings accounts did not reconcile by \$71,989 at December 31, 2009.
- b. *Accounts Payable:* During our work, we attempted to obtain an accounts payable listing, but one had not been created. Throughout this process and in correcting the bank reconciliation, we determined that year-end accounts payable were recorded twice.
- c. *Debt:* The City is not currently tracking its tax increment financing (TIF) debt balances or repayments. In addition, the debt reserve is not properly maintained in a separate account.
- d. *Sick Leave:* The City is not actively evaluating its sick leave to properly record the year-end balance, and sick leave had not been recorded in prior years.

Recommendations:

- a. *Bank Reconciliations:* The bank reconciliation completed with the software for the 999 fund needs to be compared to the actual fund 104 accounts. No adjustments should be posted directly to 104 cash accounts. Any errors identified should be corrected monthly. In addition, the CDs, Edward Jones, and SD FIT investment accounts should be reconciled to the 105 accounts monthly.
- b. *Accounts Payable:* An accounts payable listing should be prepared at least annually and reconciled to the general ledger.
- c. *Debt:* A process should be developed to monitor the City's TIF debt balances and adjust the general ledger balances accordingly. The City should establish a separate account for the debt reserve requirements.
- d. *Sick Leave:* Balances should be tracked throughout the year, and the affects of GASB 16 need to be determined by finance personnel.

Response: The 999 fund (pooled cash), 104 accounts (cash), and 105 accounts (investments) now balance and both the 104 and 105 accounts balance to the correct amount that the City has in each of those types of accounts. Any entries that affect cash are now posted to the 999 fund, which in turn creates an entry against the 104 account for the correct fund based on the fund used for the revenue or expense coding side of the entry.

In the future, an accounts payable listing will be created at year-end and checked against the general ledger to avoid double entry. We also have clarified information with the software and now know that some of the end of the year adjustments for accounts payable will not be necessary based on the date used when entering the payables for year end.

We will monitor the TIF debt balances and adjust the general ledger moving forward. A debt service fund has been created along with a capital project fund for the TIFs.

We track the sick leave accrued throughout the year as we always have through our payroll software. However, we will make sure to record the sick leave as a liability on the balance sheet.

CITY OF CUSTER

AUDITOR'S COMMENTS AND CLOSING CONFERENCE (CONTINUED)
DECEMBER 31, 2009

B. Current Year Audit Findings and Recommendations (Continued)

SIGNIFICANT DEFICIENCIES – NOT CONSIDERED MATERIAL WEAKNESSES

09-4 FINDING: Detail Testing Findings

Finding and Analysis:

- a. During our payroll testing we were unable to locate council approval of one payroll period being tested.
- b. During our payroll testing, documentation did not exist supporting the allocation of payroll expenses for employees that are allocated to various funds.
- c. During our disbursement testing, we noted several expenses that had incorrect function and object account numbers.
- d. During our revenue testing, we noted one deposit for an operating agreement that was \$50.86 short of our expectation, based on review of the liquor invoices.
- e. During our inventory testing, we noted one count that did not match the City's year-end count listing.

Recommendations:

- a. All expenditures should be approved in council minutes.
- b. Time studies should be performed to substantiate how payroll is allocated between accounts and funds for those employees who are charged to more than one fund.
- c. Expenditures should be coded according to the SD Municipal Accounting Manual guidelines and City budgets and reviewed by the finance officer.
- d. Finance personnel should follow-up on variances in liquor store invoices. Any variances identified could be corrected in the following month.
- e. Inventory reconciliations should be reviewed by finance personnel.

Response: Previously, all expenses, including payroll have been listed in the Council minutes, however going forward we will be more careful to make sure all expenses are listed.

We will start having employees record what they are working on for a time period at least once a year. And in return we will study these to make sure we are splitting an employee's wages between various funds appropriately based on their time spent with work in those funds.

We will be doing some reclassification of our line items and working on getting our coding to coincide with the SD Municipal Accounting Manual guidelines. Also when we start working on the 2011 budget, we will work on getting expenses to coincide with the Accounting Manual coding.

We will be working on a better way of tracking and collection of variances the following month for our liquor operating agreements.

We will be going back to a previously used way of doing inventory, which includes utilizing three teams, each team consisting of one Finance Office employee and one Liquor Store employee, with the Finance Office employee reviewing after the teams complete the count.

09-5 FINDING: Segregation of Duties

Finding and Analysis: We noted the following areas that lack proper segregation of duties:

- a. There is no formal documentation or review process of journal entries made in the accounting system.
- b. The City Council was not receiving financial information other than disbursement listings on a monthly basis.
- c. The accounts receivable clerk receives payments, posts payments, prepares the billings, and can post adjustments, which are not regularly reviewed.

CITY OF CUSTER

**AUDITOR'S COMMENTS AND CLOSING CONFERENCE (CONCLUDED)
DECEMBER 31, 2009**

B. Current Year Audit Findings and Recommendations (Concluded)

SIGNIFICANT DEFICIENCIES – NOT CONSIDERED MATERIAL WEAKNESSES (CONTINUED)

09-5 FINDING: Segregation of Duties (Continued)

Recommendations:

- a. A formal documentation and review process should be implemented. The documentation should include the general journal entry and supporting documentation for the entry, along with indication of who posted, reviewed, and approved the entry.
- b. The City Council should be provided a revenue and expenditure statement for all funds, which includes budgetary information comparisons.
- c. The finance officer should review the utility adjustment report and accounts receivable report at least monthly.

Response: All journal entries made by the Accounts Receivable Clerk and Deputy Finance Officer are approved and posted by the Finance Officer. In 2010, any journal entries made other than the daily deposits have documentation showing the entries made and why. The journal entry register is initialed and dated by the Finance Officer when approved and posted. In the future, all supporting documents will show who made the entries.

The Council now receives monthly statements of revenue and expenditures -- budget versus actual.

Our software has now been setup to where the Accounts Receivable Clerk cannot approve or post utility adjustments or cash in the system. The Finance Officer or the Deputy Finance Officer are the only ones who can post adjustments to utility accounts.

09-6 FINDING: Budgetary Overdraft

Finding and Analysis: The City has budgetary overdrafts in violation of South Dakota Codified Law 9-21-9, in the following departments:

<u>Fund</u>	<u>Department</u>	<u>Overdraft</u>
General Fund	Custer Cruisin'	\$ 40
General Fund	Parks	4,860
Third Penny (Promotion)	Economic Development	3,175
Bid District	Economic Development	85

Recommendation: In the future, the City should complete supplemental appropriations for unanticipated and unbudgeted expenditures.

Response: The City has completed supplemental appropriations in the past. Most of the overages in 2009 occurred right at the year-end. However, in the future the City will try to monitor things closer to try and prevent this from happening.

OTHER SUPPLEMENTARY INFORMATION



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INDEPENDENT AUDITOR'S REPORT

City Council
City of Custer
Custer, South Dakota

Our report on our audit of the financial statements of governmental activities, the business-type activities, and each major fund, of the **CITY OF CUSTER** (the City), for the year ended December 31, 2009, appears on page 1. The Statement of Revenue and Expenses for the Liquor Store for the year ended December 31, 2009, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audits of the financial statements described above and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements for the year ended December 31, 2009, taken as a whole.

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KETEL THORSTENSON, LLP
Certified Public Accountants

June 23, 2010

CITY OF CUSTER

**STATEMENT OF REVENUES AND EXPENSES
LIQUOR STORE
FOR THE YEAR ENDED DECEMBER 31, 2009**

	Liquor Fund	Less: Operating Agreements	Liquor Store
Operating Revenue			
Charges for Goods and Services	\$ 676,689	\$ 109,610	\$ 567,079
Operating Expenses			
Wages and Benefits			
Direct	85,665	-	85,665
Indirect (Note 1)	34,428	16,228	18,200
Other Current Expenses			
Property Insurance	2,777	-	2,777
Advertising	1,302	-	1,302
Repairs and Maintenance	6,978	-	6,978
Supplies (Note 1)	10,470	-	10,470
Utilities	7,602	-	7,602
Other	3,067	-	3,067
Materials (Cost of Goods Sold)	399,135	-	399,135
Depreciation	1,248	-	1,248
Total Operating Expenses	552,672	16,228	536,444
Operating Income	124,017	93,382	30,635
Non-Operating Income (Expense)			
Engineering Fees (Note 2)	(10,770)	-	(10,770)
Earnings on Deposits and Investments	13,066	10,774	2,292
Total Non-Operating Income (Expense)	2,296	10,774	(8,478)
Net Income	\$ 126,313	\$ 104,156	\$ 22,157

Note 1: These expenditures were allocated based on management estimates.

Note 2: One-time expenditure for an engineering study for a potential liquor store.